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USSR-EASTERN EUROPE: INF Counterdeployments

*The Soviets probably have moved at least part of two SS-12/22
brigades from the USSR to East Germany and Czechoslovakia.*

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TASS and *Red Star* now report that, in response to INF
deployments, a Soviet unit is training with "operational-tactical
missiles of enhanced range" in Czechoslovakia. They previously had
reported that such a unit was in East Germany.

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Comment: The Soviets apparently intend to station at least four
SS-12/22 brigades in Eastern Europe. Each brigade eventually is
likely to have 18 launchers.

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SPAIN: Pro-Soviet Communist Party Formed

The formation of a Soviet-oriented party in Madrid last week could weaken the mainline Spanish Communist Party. []

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The new party, which combines several splinter groups, claims a membership of 25,000. It is led by Ignacio Gallego, who until recently was a key figure in the regular Eurocommunist party. []

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The party's creation follows the divisive congress last month of the Spanish Communist Party. Former Secretary General Carrillo failed at the congress to regain control of the party and reassert a more pro-Soviet, anti-Socialist line. The triumph of Carrillo's moderate opponents at the meeting finally persuaded the pro-Moscow dissidents to cut their remaining links to the regular party. []

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Comment: Pro-Soviet parties have been formed previously in Spain, but the new entry possesses several advantages over its predecessors. It has a solid base in Catalonia, and it is led by a group of individuals with great prestige and influence in Spanish Communist circles. In addition, it has the support of important leaders of the large Communist trade union. []

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If the new party obtains substantial financial backing from the USSR, it has the potential to cut into the 8 percent of the electorate that voted for the regular Communist Party in the municipal elections last spring. Its prospects would be improved further if it were able to project a public image of unity and determination. The regular party, which is plagued by internal feuding and dissent, lacks such qualities. []

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The Soviets will be reluctant to give full support to the new party, however, until it has clearly established itself. Soviet delegates did attend its founding congress, but they were of lower rank than Moscow's representatives at the regular party congress in 1983. Moreover, the regular party still supports the USSR's major objectives in Spain of eliminating the US bases there and removing Spain from NATO. []

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URUGUAY: Reprisals Against Strikers

The one-day general strike this week has hardened the position of the military regime and of antigovernment groups, increasing the likelihood of violence. []

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The government has dissolved the six-month-old labor confederation that organized the strike, has banned news reports about the work stoppage, and has prohibited political party or labor union meetings. []

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The Blanco and Colorado Parties are determined to work for a return to civilian rule, which is scheduled for early next year, but they are divided on tactics. The aggressive majority faction of the Blanco Party, along with the illegal leftist parties, backed the strike. Moderates in the Colorado Party support the strikers' economic demands, but they fear that the strike will make the military less willing to adhere to the timetable for transition to civilian rule. []

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Military officers, meanwhile, are meeting this week to select a new Army commander and four new general officers. They will be highly influential in determining the course of the transition. []

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[] President Alvarez has used the specter of civil disorder and a resurgence of the left to try to extend his tenure in office, and he will seek the promotion of those loyal to him. []

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Comment: The effectiveness of the strike, which follows a massive antigovernment rally in November, is likely to cause increased concern in the military about the wisdom of civilian rule. It probably will enable Alvarez to have several of his loyalists selected for key commands. []

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The parties, although frustrated by the military's tough response to their pressure, have been encouraged by their success in mobilizing antigovernment sentiment. They are likely to wait until the general officers are selected before devising further strategy. Moderates in the parties probably will lose to hardliners, who will be increasingly militant with the help of labor and support from the left. []

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UK: Tory Dissension Over Spending Controls

Prime Minister Thatcher has easily weathered a revolt in her own party over controversial efforts to cut spending, but she is likely to face increased dissension in the future. []

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Thirteen Tories, including former Prime Minister Heath, defied the government on Tuesday and voted with the opposition against a bill that gives the central government unprecedented power to control spending and taxing by local councils. []

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Comment: Backbench revolts have occurred with increasing frequency over the past 15 years, and, with a 140-seat majority in Parliament, Tory MPs probably feel free to oppose Thatcher occasionally. In addition, many of the Tories elected for the first time in Thatcher's landslide victory in June represent normally Labor districts. Since these MPs will have difficulty being reelected, they may see some gain in opposing the Prime Minister on issues that particularly affect their constituents. []

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Despite favorable prospects for moderate economic growth this year, Thatcher appears concerned that there will not be sufficient progress to dampen criticism from the opposition and moderates in her party. The government also may have to propose a limited increase in taxes in the budget in order to reduce public-sector borrowing in the next fiscal year. []

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A tax increase would violate Thatcher's election pledges and provoke additional criticism of her. The Prime Minister's position is strong enough to overcome any opposition, but, if moderates believe that the budget is too burdensome, there could be additional Tory defections. []

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Thatcher continues to count on a US-led economic recovery to ease budget pressures. She and Chancellor of the Exchequer Lawson have publicly criticized high US budget deficits and interest rates. This probably reflects government concern that the UK's recovery may stall if capital spending fails to increase at home. []

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The Prime Minister would prefer to avoid criticism of US economic policies. She might be tempted to use the US as a scapegoat if she concludes it is necessary to deflect criticism. []

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SURINAME: Labor Crisis Easing

The bauxite workers reportedly have shifted their demands back to economic issues, most of the other strikers have returned to their jobs, and the US Embassy indicates that the situation is becoming more stable. [redacted] bauxite union leader Derby appears to have regained some influence with the workers by thwarting attempts by the radical Revolutionary People's Party to infiltrate the union. Derby told strikers on Tuesday that a solution was near that would permit their return to work by next Monday. [redacted] Derby believes that a partial refund of taxes on Christmas bonuses would end the strike, and, according to the Embassy, an official at the Suralco bauxite plant agrees that some financial compensation could persuade workers to return to their jobs [redacted]

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Comment: The radical party's alleged plan to oust Derby apparently has backfired, which may cause it to lose some influence with Army Commander Bouterse. A government payoff of the strikers is a possibility now that they appear less interested in their political demands. Although Bouterse might agree to provide some funds to the strikers, he probably would not want the payoffs publicized for fear of provoking protests by other workers. [redacted]

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NICARAGUA: Unity Talks Among Insurgents

The Democratic Revolutionary Alliance has publicly proposed unification of all anti-Sandinista groups and development of a political program to defeat the regime in Managua. [redacted]

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Comment: The insurgents' failure to present a united front has limited their ability to gain domestic and foreign support. The Democratic Force has called for unity in the past, and it is likely to welcome the new offer. The Alliance apparently has not set preconditions and says each group can retain its identity, which should increase chances for an agreement. Nevertheless, the negotiations face some difficult issues, such as which insurgent group will represent the Miskito Indians. [redacted]

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EL SALVADOR: Continued Detention of Murder Suspect

The announcement of the continued detention without specific charges of Captain Avila, who is implicated in the murder of two US labor officials in 1981, may cause serious legal and political problems for the Salvadoran Government. The US Embassy reports that President Magana, Defense Minister Vides, and several top military and security officials reluctantly agreed to detain Avila beyond the legal 30-day period, which expired on Wednesday. Vides says that he expects problems from all sides—especially from the Supreme Court and the Legislative Assembly—but that he is prepared to risk his own position by illegally detaining Avila. [REDACTED]

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Comment: Public reaction against the decision is likely to be strong, and the government's concern is justified. Moreover, extreme rightist officers, charging US interference with the military establishment, may again try to oust Vides. Unless new charges can be lodged soon against Avila, the government probably will have to release him. [REDACTED]

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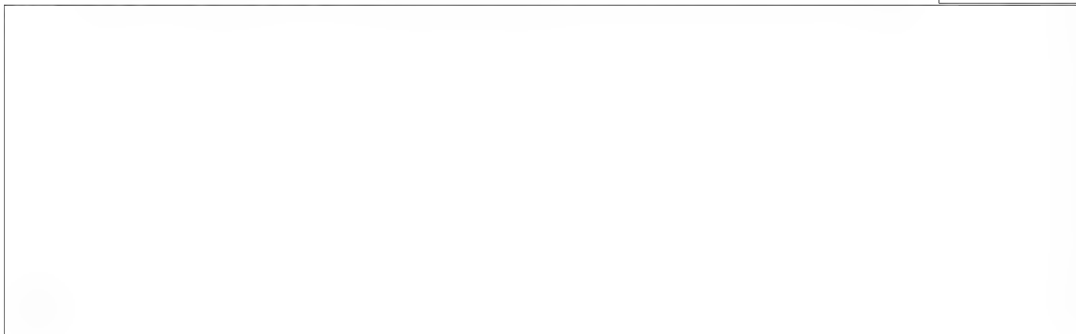


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USSR: Medical Commissions Formed

Red Star has announced the establishment of medical commissions in all regiments and larger units in the Soviet ground forces to prevent epidemics. They will deal with sanitary conditions and other health problems. The commissions will be headed by the deputy commanders of all units, and they will be authorized to recommend punishments for violations of established procedures.

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GHANA: Influential Radical To Resign

The US Embassy reports that the key leftist adviser to Head of State Rawlings will soon resign because of his unhappiness about the regime's efforts to obtain Western economic assistance. Director of Security and Intelligence Tsikata has been the major source of anti-US rhetoric since Rawlings seized power. His resignation will come at a time when Rawlings faces growing opposition from the public to recent steep increases in food prices. [redacted]

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Comment: Rawlings has depended heavily on Tsikata's advice, and he will find it difficult to replace him. Tsikata's departure probably will prove favorable for US interests, however, and it may make it easier for the regime to carry out austerity measures needed to satisfy Western aid donors. On the other hand, it also could serve to provoke active radical opposition and may encourage leftist plotters to turn to Libya for aid to salvage Ghana's troubled "revolution." [redacted]

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**Bahamian Prime Minister
Lynden O. Pindling**



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BAHAMAS: Government in Trouble

The US Embassy says union leaders believe that the ruling party may collapse as a result of an investigation by the Royal Commission of Inquiry into drug trafficking and government corruption. The inquiry has implicated several senior government officials, and there is mounting evidence that the police and defense forces also are involved in drug-related corruption. The union leaders say the opposition party will revive its call for a vote of no confidence and may stage street demonstrations to force the issue. [REDACTED]

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Comment: Prime Minister Pindling is publicly optimistic about the outcome of the hearings. The opposition's ability to exploit the situation has been weakened by leadership problems and lack of popular and organizational support. Further revelations by the commission, however, would strengthen the opposition and undermine Pindling's position. [REDACTED]

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**Trade and Aid Losses From
November 1983 to December 1984***Million US \$*

Amount	Sources	Comments
\$15	Communist and Arab countries	Loans and grants for airport construction, agricultural and technical assistance, health, and education projects.
\$1	Warsaw Pact	Nutmeg exports.
\$5.9	IMF	Suspended in November 1983 following a change in government.
\$2.5	US Medical School	Enrollment declined by more than 50 percent.
Unknown	Tourism	Likely to be considerably below the \$18 million projected by the previous government, as a result of political uncertainty during current peak tourist season.
Total	over \$24.4	

Probable New Aid and Trade*Million US \$*

\$2.2	US	Disaster relief and infrastructure repair.
\$5	US	Balance-of-payments support.
\$10	US	Road repair, social services, agriculture, and private-sector support.
\$4.7	IMF	New agreement to be negotiated late this month.
\$1.1	UK	Police training and public works.
Unknown	UK	Development aid.
Unknown	Taiwan	Unspecified economic assistance in return for establishing diplomatic relations.
Unknown	Venezuela and Trinidad	Possible refined petroleum and asphalt at concessionary prices.
\$1	US	Nutmeg sale to private businessman.
Total	over \$24	

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Special Analysis

GRENADA: Economic Challenges Ahead

The interim governing council has inherited an economy beset by widespread unemployment, breakdowns in public services, and a depleted treasury. New aid donors already have promised nearly \$25 million worth of assistance and are considering more. Continued external aid will be required over the coming years to reorganize and rebuild the economy and lay the groundwork for sustained growth.

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Unemployment has risen to an estimated one-third of the work force as the ranks of the jobless have been joined by former members of the People's Revolutionary Army and the militia and by airport workers and others who were employed by the Cubans and Soviets. The country's infrastructure and basic services, which were damaged during the fighting or neglected by the previous regime, need repair and improvement. In addition, the departure of the Cubans, as well as other doctors, teachers, and technical personnel, temporarily disrupted health and education services.

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Quick disbursement of US project aid has allowed the interim government to begin tackling these problems. US personnel are providing medical services, and the government has been able to replace many teachers with educators from neighboring Caribbean countries.

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By the middle of the year, however, Grenada will face its normal seasonal low in tax receipts and foreign exchange earnings. This will intensify its budget problems.

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The IMF is likely to oppose any increase in the already high tax rate on grounds that this would deter private investment. Moreover, major decreases in budget outlays probably would result in substantial layoffs—at least in the short run. This would damage the government politically.

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Rebuilding the Economy

Over the long run, the government needs to reorganize the economy to revitalize the private sector and promote sustained recovery. The World Bank has recommended a variety of tactics to increase foreign exchange earnings by stimulating agriculture, tourism, and manufacturing. The recent designation of Grenada as a beneficiary under the US Caribbean Basin Initiative is likely to encourage private investment and production.

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To increase earnings from tourism, the government intends to complete the Point Salines airport, at an estimated cost of \$15-20 million, and to build new hotels. Grenada intends to seek financing for these projects at a conference of aid donors to be held in Barbados during early February. According to the US Embassy and the World Bank, the island needs 1,200 additional first-class hotel rooms—it currently has only 300—to take full advantage of the airport. []

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Dependence on Aid

Grenada will continue to depend on foreign assistance over the next few years to finance infrastructure projects. It probably will turn to the US as the major source of this aid, because export and tourism earnings will be insufficient to pay for necessary investments during this period. []

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International lenders are concerned about the payments performance of major Third World debtors. They are receiving increasing demands from industrial borrowers. The lenders will be reluctant to increase their exposure in Grenada substantially. []

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